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Should the military exchange systems be consolidated?.

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SHOULD THE MILITARY EXCHANGE SYSTEMS BE CONSOLIDATED?

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CHAPTER I

INTRODUCTION

The Department of Defense Exchange complex is composed of the Army - Air Force Exchanges, Navy Exchanges and Marine Corps Exchanges. Their combined sales are in excess of three billion dollars annually. They employ over 100 thousand civilian personnel[1] and serve approximately 10 million authorized patrons worldwide.[2]

The recent and rapid growth of this military resale complex has been stimulated by the Vietnam war activity and by the large number of World War II servicemen that have completed twenty years active duty and are now expanding the number of retired customers. Military pay increases and internal improvement of exchange stores' layout and design are other contributing growth factors.

The Armed Services Exchange Regulations are the governing policies of all military exchange operations. The House Armed Services Committee, through hearings over many years, suggested, and the Department of Defense accepted, a list of authorized resale

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[1] Department of Defense Military Exchanges, Task 68-5, Prepared by the Logistics Management Institute, Washington, D.C., July, 1968, p. 1.

[2] "Market-at-a-Glance," Exchange & Commissary News, Vol. IX, No. 1, January 15, 1970, p. 1.

items. This list is included in the Armed Services Exchange Regulations. It defines and limits the merchandise that can be carried by an exchange in continental United States. Overseas exchanges are not covered by these merchandise restrictions but must comply with gold flow limitations established by the Secretary of Defense.

The House Armed Services Committee, further controls the mission of exchanges through statements issued during Committee hearings. The Committee stated that it was and would continue to be concerned with competition with local merchants,[1] that exchanges should not be the sole provider of goods and services for the serviceman[2] and that the Exchanges were not expected to supply the total amount of funds needed for recreational and welfare activities.[3] By inference it stated that Congress expects to appropriate recreation and welfare monies through specific line items in the budget.[4]

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[1]U.S. Congress, House, Committee on Armed Services, Hearings on Sundry Legislation Affecting the Naval and Military Establishments, House of Representatives, 81st Cong., 1st Sess., 1949, p. 3551

[2]Ibid., p. 3757.

[3]Ibid., p. 3543.

[4]U.S. Congress, House, Committee on Armed Services, Hearings on Sundry Legislation Affecting the Naval and Military Establishments, House of Representatives, 85th Cong., 1st Sess., 1957, p. 3261.

Joint Army Air Force Exchange Service Regulations, Navy Exchange Manual and the Marine Corps Exchange Manual further define policies and procedures as they apply to their respective services.

Profits generated from the Exchange operations are distributed to welfare and recreation activities of local commands using different methods for each branch of service.

The Army and Air Force methods are similar in their initial distribution of Exchange dividends.[1] However, the Army funds are controlled by the Army Central Welfare Fund. The funds are distributed by this central agency to major commands using a per capita dividend method. The per capita amount is set on a sliding scale depending upon the total strength of the major command. The major commanders further distribute these funds to the Central Post Welfare Funds and the Unit Funds. Normally, all funds are distributed and no money is retained at the headquarters level to make special grants. The Air Force method utilizes the Air Force Welfare Board for distribution of Exchange dividends to the major commands. Further distribution is then made by the major commands

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[1]Joint Army No. 60-10 and Air Force No. 147 Regulation, Exchange Service General Policies, Para. 20 and 21, March 25, 1969, p. 7.

to the numbered Air Forces and Air Force bases. This distribution is also based on the per capita or number of command and base personnel. However, a portion of the Exchange dividends is retained by the Air Force Welfare Board for the purpose of making grants, loans and to provide a better balance in the availability of welfare and recreation activities among the major commands.

Navy and Marine Welfare and Recreation Funds are dependent upon local Exchange profits rather than the number of personnel assigned to the Command. Under the Navy system a central exchange overhead assessment is made on gross sales by the Navy Resale Systems Office. This fee ranges from 1.5 per cent to 3.5 per cent depending on the volume of sales. Also the Bureau of Naval Personnel makes an assessment from the net profit for a Central Recreation Fund General Account. This charge varies from 5 per cent to 20 per cent of the net profit, based on the local Exchanges total volume of sales.[1] The fees are lower for smaller Exchanges and are graduated upward as the sales volume increases. The balance after these deductions is then returned to the local command for welfare and recreation purposes. This amount is usually reduced further by repayment of loans granted by the Navy Resale Systems Office for capital improve-

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[1]Navy Exchange Manual 2514-2, p. 2-29.

ments and inventory shortages. Also, payment of up to 10 per cent of this net income is made to the Naval District Command for the Naval District Welfare and Recreation Fund.

The Marine Corps Headquarters assesses their local Exchanges 1.25 per cent of gross sales. One-third of this fee is for the cost of the Headquarters Exchange overhead, one-third for general Marine Corps - wide welfare and recreation activities and one-third for the cost of the Central Insurance Program for Non-appropriated Fund Personnel.[1] The balance is turned over to the base commander for welfare and recreation purposes. This amount is substantially reduced, however, if Exchange inventory expansion is necessary, building alterations are made or Marine Corp club entertainment funds require a subsidy.

Subject Area of Research

The author's interest in the consolidation of the Military Exchanges was sparked by a tour of duty as the Navy Exchange Officer, Naval Station, Washington, D. C. The many differences, similarities, and problems of the Military Exchanges surfaced during this sensitive assignment. Operating experience and personal acquaintance with the senior representatives of the Defense Establishment, who are knowledge-

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[1] Marine Corps Exchange Manual, Part I, Distribution of Profit, 1400, pp. 1-33, 1-34.

able on this subject, prompted the desire for further research in this area.

The need for improved methods and procedures governing Exchange operations is apparant when closely related facilities are competing for the same customers patronage. A one cent variance in the price of a gallon of gasoline or a five per cent mark-up difference on an appliance is quickly reflected in sales figures. Merchandise games are common when a mark-up per centage is detected. For example, if one Exchange has a lower mark-up and carries Samsonite luggage, the other Exchange would stock American Tourister or another brand. This would prevent the comparison shoppers from comparing identical items and uncovering the mark-up differential. Although not its original intention, this practice does offer the military patron a better selection of choices when buying luggage. Since the Army-Air Force and Navy Exchanges have established prices on retail merchandise through price agreement bulletins, a customer within their intra service Exchange system can expect to pay the same price for an item in San Diego, California or Jacksonville, Florida. This also assures a serviceman that he will pay the same price for the item in an isolated area as he would at a large military complex. Although this pricing policy is effective intra service, a broader look as to its effect on inter-Exchange procedures will be discussed later in this paper.

Research Question

The research question to be considered is: Should the Army-Air Force, Navy and Marine Corps Exchanges be consolidated into a unified Department of Defense Military Exchange System?

Subsidiary questions are:

(a) What effect would consolidation of the Military Exchanges have on service personnel?

(b) What political considerations are necessary when a giant government business is created?

(c) Is increased centralization needed? At what level?

Scope

This research paper will examine the differences in operating policies and procedures of the three Department of Defense Military Exchange Systems. Information used here has been obtained from the Navy Resale Systems Office, Brooklyn, New York; Army Air Force Exchange Service, Dallas, Texas and sources within the local Washington, D. C. area. This paper is primarily focused on events, experience and decision making from fiscal 1966 to present.

To acquire current impressions and reactions to the Military Exchange System, it has been necessary to use current periodicals, pamphlets and magazines, even though many are less then objective in

their presentation. Additionally, stress has been placed on the analysis of current regulations of the three Military Exchange Systems. Also, numerous personal interviews have been conducted with knowledgeable officials to expand, confirm and refute significant points gained by personal experience.

Objective

The objective of this paper is to review the advantages and drawbacks of the Military Exchange Systems and how they can best be applied toward a better Military Exchange in the future.

> The mission of an Exchange is to provide a convenient and reliable source from which authorized patrons may obtain, at the lowest practicable cost, articles and services required for their well-being and contentment; to provide, through profits, a source of funds to be used for welfare and recreation of military personnel; and to promote the morale of the command in which it is established through the operation of a well-managed, attractive and serviceable Exchange.[1]

[1] Navy Exchange Manual 1311, p. 1-8.

CHAPTER II

EVOLUTION OF THE MILITARY EXCHANGE SYSTEM

The United States Military Exchange Systems had their genesis from both land and sea requirements to provide servicemen basic personal necessities not provided by the government. The following historical background is divided first into the development of the land based Exchanges followed by the afloat development of the Navy Exchange System.

Army-Air Force-Marine Corps

The practice of having retail stores where military men could purchase small comforts dates back to the days of Julius Caesar, whose legionnaires bought necessities not otherwise provided, from tiny shops on the Via Quintana in Rome.[1] The word "canteen" is believed to have derived from the name of this street.

In 1921 King Gustavus Adophus of Sweeden established concessions to supply certain specified articles to the troops. These civilian concessionaires were known as sutlers who usually followed

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[1] Charles A. Blick, "Twenty Years of Progress," Newsletter, Navy Supply Corps, April,1966, p. 5.

the armies into the field and were a combination of saloon keeper and general store operator.[1]

During the Revolutionary War, provision was made in the American Army for the appointment and control of the sutlers.[2] The first ninety years of our Nation's history, sutlers provided our troops with food, liquor, tobacco, and other goods not regularily furnished by the government. They made retail sales, for cash or credit, to individuals. At times they even supplied rations to troops on a contract basis.[3] The Congress of the United States officially recognized the sutlers when they drafted the rules and articles for the control of the Armies of the United States.[4] In the general regulations for the Army (1835), the sutlers

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[1]Meyer Scolnick and Joseph L. Packer, "Evolution of the Army and Air Force Exchange Service," United States Air Force JAG Law Review, Vol. VIII, No. 5, (September-October, 1966), p. 20.

[2]British Articles of War of 1765, in Force at the Beginning of the Revolutionary War, (Sec. VIII, Art. I-IV: Sec. XIV, Art. XXIII); Massachusetts Articles of War, Adopted April 5, 1775, (Art. 31); American Articles of War of 1775, (Arts. XXXII, LXIV, LXV, LXVI); American Articles of War of 1776, (Section VIII, Arts. 1-4, Sec. XIII, Art. 23).

[3]"Military Commissaries - Billion Dollar Market for Industry," The Review, May/June 1965, Vol. XLIV, No. 6, p. 127.

[4]Ibid., p. 128

tenure of office was fixed at four years. His activities were to be controlled by a post council of administration, and a per capita assessment, not in excess of 15 cents every month for every officer and enlisted soldier, was levied. The funds received from the sutler provided the basis for the post fund. They have since become known as non-appropriated funds, controlled by the command, for welfare and recreation purposes.[1]

At Western posts the sutlers sold necessities and luxuries not only to soldiers but also to trappers, freighters, and emigrants bound for the Far West. Many sutlers were unscrupulous get-rich-quick merchants. During the Civil War they fell into great disfavor; they were accused of overpricing their wares, fostering drunkenness, extending excessive credit and then collecting by lien against the soldiers' pay.[2]

In an effort to correct these evils, Congress first repealed the laws giving sutlers the right of lien,then prohibited the sale of whiskey, and finally, limited the number of articles the sutlers could sell in the years 1861, 1862 and 1863 respectively. Abuses of the system continued and on July 28, 1866, Congress legislated to abolish the sutler system by July 1, 1867. The sutlers influence in

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[1]Scolnick and Packer, Evolution, p. 20.

[2]Billion Dollar Market, The Reviewer, p. 127.

in Congress quickly surfaced. Four months prior to the effective date, a joint resolution was passed permitting post traders to set up their establishments at forts for the convenience of travelers. The absence of railroads through much of the Indian country west of the Mississippi, the limited number and widely separated cities and towns, and the presence of hostile Indians on the Western plains were given as official justification. The original sutlers became known as post traders and thus retained their footholds at the frontier posts.

The privilege to sell merchandise, food, and drink to the troops at a garrison was evidently quite lucrative. To secure and to retain the privilege, unscrupulous traders were willing to spend considerable sums in bribes to individuals whose influence could be used in their favor. After having been awarded the post tradership, the traders sought to enrich themselves by selling inferior merchandise at over-inflated prices and by fostering overindulgence in liquor.[1] The enlisted men were repulsed by this arrangement and would spend their leisure time at unwholesome establishments that solicited their trade off the base.

Colonel Henry A. Morrow, the Commander of the 21st Infantry Regiment at VanCouver Barracks was one who evidently felt considerable concern about disciplinary problems resulting from his men's conduct

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[1]Scolnick and Packer, Evolution, p. 22.

off the base. As a remedy on November 29, 1880, he established a canteen on the post where his men could write letters, read magazines and newspapers, play billiards, cards, games and obtain light food and beverages. Disciplinary cases were substantially reduced; the canteen was self-suuporting, and the men began to spend more and more of their off-duty hours in the canteen. In 1885 when Colonel Morrow was transferred to Fort Signey, Nebraska, he again established a canteen to encourage wholesome amusement, recreation, and on-base food and drink.

The canteen results were so successful, they were soon copied at other posts. By 1889, the methods, for providing off-duty soldiers on the post amusement and recreation were proceeding along two divergent paths. One method was based on post traderships. The other was based on post canteens.

The post traders were unable to compete profitably with the canteens as the canteens were managed by an active duty officer and were housed in government structures which substantially reduced both labor and fixed costs. By 1892 canteens were established at 85 posts and only 11 trading posts remained. The Secretary of War in 1892 changed the name from post canteen to Post Exchange.[1] Congress favorably endorsed the post exchanges by passing legislation prohibit-

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[1]Scolnick and Packer, Evolution, p. 31.

ing the filling of post trader vacancies and terminating all authority for making such appointments.[1]

Congress as early as 1891 provided appropriated funds to assist exchanges in the performance of their mission by funding $50,000 toward building costs.[2] Beginning in 1902, Congress made regular provision for the construction, equipment and maintenance of buildings for the conduct of the post exchange operations in appropriation acts.[3]

In 1901 through various temperance organization's efforts, Congress passed a law that prohibited the sale of or the dealing in beer, wine or intoxicating liquor by any person in a post exchange.[4] This was a difficult pill for military leaders to swallow. They believed that serving beer in the post exchanges encouraged soldiers to moderation, induced them to patronize the exchange, and kept them from seeking their off-duty amusement in saloons and other undesirable establishments off the base. However, the ban did have an important and quite unexpected consequence. To overcome the loss of revenue

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[1]Act of June 28, 1893, Ch. 51, 27 Stat. 426.

[2]Act of February 24, 1891, Ch. 284, 26 Stat. 777.

[3]Act of June 30, 1902, Ch. 1328, 32 Stat. 507, 517.

[4]Act of February 2, 1901, Ch. 192, Sec. 38, 31 Stat. 758.

from the beer sales, the exchanges began to promote the sale of other articles of merchandise. As a result, the nature of the Exchange as a general resale activity was emphasized.

From 1901 to 1941 the operational framework of the post exchange remained almost unchanged. The pattern that evolved was one of independent operation at the Army or Marine divisional level. Each division established an independent exchange to serve its unit only.[1] This resulted in many small exchanges on large installations. with a wide variety of merchandise, pricing and accounting techniques. Direction from higher echelons were almost non-existent and there were limited controls over post Exchange activities.

When the United States entered World War I, this system proved to be totally inadequate. The Army's tremendous expandion was far beyond the capacity of the post exchange system. This experience demonstrated the inadequacy of the system of independent post exchanges and the need for a central organization to initiate procedures for acquiring funds, setting management policies for personnel, audit, operation and control.

Civilian welfare agencies at the request of General John J. Pershing met the World War I challenge by providing canteen service for the troops overseas. In 1919, Mr. Raymond Fosdick, Secretary of

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[1]Scolnick and Packer, Evolution, p. 33.

of War, recommended that in future conflicts the Army provide its own system of furnishing leisure time, morale and canteen activities to the troops.[1] These recommendations were ignored during the post-World War I period and the existing system was not changed.

When the United States began to mobilize its forces again in 1940, the post exchange problem again faced the Military. To meet the challenges of the enlarged Army, the Army Exchange Service was established as a separate agency in the morale branch of the War Department on June 6, 1941. In 1943, it became part of the Special Services Division in the Office of the Director of Personnel, Army Services Forces.[2]

Day to day operation of the exchanges was handled at the post level under the direction and supervision of an exchange officer responsible to the post commander. Policies were established by the Army Exchange Service and communicated through regular command channels. The effectiveness of this organizational system was tested during the years of combat in World War II and was accepted as meeting the challenge of providing necessary personal support to a rapidly expanding mobile Army.

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[1]Report to the Secretary of War on "The Activities of Welfare Organizations Serving Within the AEF," June 1, 1919.

[2]Scolnick and Packer, Evolution, p. 34.

The National Security Act of 1947 established the Department of Defense and the separate Departments of the Army, Navy and Air Force. The Air Force Exchange Policy Commission, composed of representatives of the United States Air Force Headquarters and the major air commands studied various methods of operation in an effort to provide the maximum benefit to their personnel. In their report of December 4, 1947, they recommended joint operation of the Army Exchange Service. On July 26, 1948, the Army Exchange Service was redesignated the Army and Air Force Exchange Service.[1]

The Secretary of Defense on May 14, 1949, transferred to the Secretaries of the Army and the Air Force all functions, powers, and duties relating to exchange service activities and authorized their joint operation. Under this authority, the responsibilities of the respective Secretaries for operation of exchange service activities, administration of associated non-appropriated funds, and determination of policies relative to these activities and funds were vested in the Chiefs of Staff of the Army and Air Force and exercised by the Board of Directors, Army and Air Force Central Welfare Fund. The Army and Air Force Exchange Service was established as a joint agency of the Departments of the Army and the Air Force.[2]

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[1]Scolnick and Packer, Evolution, p. 35.

[2]Joint Army and Air Force Adjustment Regulation No. 1-11-63, May 20, 1949.

The Marine Corps Exchanges developed their stores similar to the Army except they chose to remain decentralized. The demand for central control due to war time expansion of inventories was not a Marine problem as their exchanges were small necessity item stores, usually located on Navy activities, or stable continental United States bases.

Navy

The tradition of sea-going officers specially trained to manage the business affairs of ships dates back to the eleventh century when British agents called clerks were responsible for the entire fitting out of vessels in the service of the King. These clerks were held in low repute by the crews they served who often felt they were being cheated in the purchase of necessity items. Such terms as, "purser's shirts," meaning a loose, poorly fitted garmet, and "purser's candles," meaning the smallest possible candle, originated during this period and can still be heard today.[1] Although modeled after the British system, the American Navy pursers had a better reputation. They were not required to whisle continuously while inventory provisions to prove they were not eating the

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[1] Hamersly's Naval Encyclopaedia (Philadelphia: L. R. Hamersly & Co., 1881), p. 670.

raisins.[1] The Naval Armament Act of 1794 provided an allowance of one purser for each newly authorized ship. He was to have the rank of Warrant Officer and was responsible for paying, feeding, and selling clothing items to the crew. His pay was set at $40 per month plus two rations a day and allowances.[2] The allowances could be substantial as a profit of ten per cent to fifty per cent on goods sold to the crew was legal.

The purser's responsibilities grew as the United States Navy increased in size. A speaking knowledge of French and Spanish was required to conduct business in foreign ports and regular audits by the Treasury Department required training in accounting. In 1810, pursers were given the status of Commissioned Officers and the added responsibility of maintaining the ships ammunition records and the muster records of the ship's officers.

In 1818 pursers were authorized shore duty for the first time at Navy shipyards with the added responsibility of paying and feeding all the officers and men plus Navy Yard mechanics and laborers. Naval storekeepers were allowed as assistants.[3]

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[1] "A History of the Navy Supply Corps," Navy Supply Corps Newsletter, February 1970, p. 13.

[2] Naval Armament Act of March 27, 1794, Ch. 12, 1 Stat., Sec. 3, 350.

[3] "History," Navy Supply Corps Newsletter, p. 14.

The purser was fully augmented into the Navy by the Navy reorganization of 1842. A standard pay scale was established by Congress to replace their former rations, allowances and pay. They were placed under the Bureau of Provisions and Clothing and their annual pay ranged from $1,500 to $3,500 depending upon the size of the ship. This reorganization forbid Pursers to procure or dispose supplies to the officers and crew for their own benefit or profit. This legislation finally silenced complaints about exploitation by the Purser. Profits were now generated for the entire crews benefit through the captain's recreation fund.

In 1858 the Purser's title was officially changed to Paymaster and their responsibilities continued to grow. Inventories were consolidated afloat and ashore under the General Storehouse System in 1886 and the Navy Stock Fund was created to be administered by the Paymasters. In 1892 the Bureau of Provisions and Clothing was renamed the Bureau of Supplies and Accounts and the Pay Corps took on the added job of accountants for the Navy.[1]

The paymaster also assumed the responsibility of managing a cooperative venture called a canteen aboard ship. It was financed by the crew members with the consent of the Captain and profits were turned over to the Captain for welfare and recreation purposes.

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[1] Ibid., p. 14.

Merchandise for these stores was frequently purchased on consignment, and the movement of ships made the timely payment of these bills difficult. There were frequent cases of failure to pay bills.[1]

Many Navy people thought that the canteens reflected unfavorably upon the integrity of the Navy even though they were unofficial independent operations. Buying from unsavory merchants in waterfront areas was also an intolerable situation for crew members. Items of a personal nature were necessary for the welfare and contentment of the ships company. It was a combination of these factors that led to the establishment of official ships stores.

Legal status was given to the Navy Ships Stores by the Naval Appropriation Act of March 3, 1909.[2] Two years later Congress limited profits to a maximum of fifteen per cent and specified their use for recreation and welfare of enlisted personnel with control administered by the Bureau of Supplies and Accounts.[3]

Early Ships Stores apparently did not satisfy the needs of the men of the Navy. During the World War I period of expansion, they were found inadequate in terms of commodities and convenience. Also they did not provide sufficient revenue for financing the ship's welfare requirements. For these reasons a new operation developed,

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[1]Navy Resale Sustem and the Navy Ships Store Office falt sheet, early history, February 25, 1959, p. 1. (Typewritten.)

[2]*Ibid*., p. 2.

[3]Act of June 24, 1910, Ch. 378, 36 Stat. 605.

known as Ships Service. It was cooperative in nature, carried virtually any legal article of merchandise and could make whatever profits were needed by the individual ships. Similar activities also sprung up at shore installations. Although they were in competition with the ships stores aboard ship and without legal foundation, the Ships' Service Stores were given official sanction by Navy Regulations in 1923 and placed under the cognizance of the Bureau of Navigation (now known as the Bureau of Naval Personnel).[1]

By the late nineteen thirties, the Ships Service activities and ships stores had become so extensive that their space and weight requirements afloat became a serious problem for fighting ships. Also, many conflicts developed from the duplication of services and in October 1944, the Secretary of the Navy merged the stores on vessels having Supply Officers and made it permissive to do the same at all other Naval activities. A Ships Store Division of the Bureau of Supplies and Accounts was established to offer supervision, formulate policies and provide guidance for these Stores.[2]

The Ships Store Division was big business, but an even bigger and uncontrolled business was flourishing in the Ships Service Stores

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[1]Blick, "Twenty Years of Progress," p. 6.

[2]Navy Resale System and the Navy Ships Store Office fact-sheet, early history, February 25, 1959, p. 3. (Typewritten.)

Ashore. In February 1946 these Stores were also placed under the Bureau of Supplies and Accounts upon the recommendation of the Bingham Committee, which was established by the Secretary of the Navy to examine all Naval Resale Activities. In April of the same year, the Navy Ships Store Office was established in Brooklyn, New York, as a field activity of the Bureau of Supplies and Accounts for the purpose of administering the operations of the Ships Service Stores, Ships Stores Ashore and Navy Commissary Stores. Ships Stores Afloat and Military Sea Transportation Service Exchanges were also added in 1949 and 1950 respectively.[1] Ships Service Stores were renamed Navy Exchanges in 1950.

In 1969 the Navy Ships Store Office operated 400 Navy Exchanges, 92 Commissary Stores, 639 Ships Stores Afloat, and 86 Military Sea Transportation Service Exchanges with total sales of 1,083 million dollars. Commencing with fiscal year 1970, the Navy Ships Store Office became officially known as the Navy Resale Systems Office.[2] This paper will cover only the non-appropriated portion of the Navy Resale Systems Office's responsibilities; the Navy Exchanges.

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[1] "Growth and Service .. The Navy Resale Way!" Navy Supply Corps Newsletter, April 1970, p. 8.

[2] "Navy Resale System Annual Report 1969," Published by Navy Resale System Office: New York, p. 20.

CHAPTER III

PROCEDURES: COMPARATIVE PERFORMANCE

Detailed operating procedures of the Army-Air Force, Navy and Marine Corps Exchanges are contained in their respective manuals. This chapter will explore their differences as these peculiarities are the obstacles that must be solved before a unified Exchange Service can become a reality.

Personnel Administration

Each Exchange Service has independently developed their personnel policies and practices. A listing of their differences for civilian personnel is shown in Table 1. For military bases located in the same geographical area, these differences appear to be a means of retaining trained personnel within their particular Exchange system. For example, no retirement benefits are transferable if an employee switches from one Military Exchange system to another, even though they would continue to be employed within the Department of Defense. This becomes more significant when the similarity in the jobs and type of work performed among the Exchange Services is taken into consideration.

TABLE 1

COMPARISON OF DIFFERENCES OF PERSONNEL POLICIES AND PRACTICES - AAFES, NRSO AND MCES

1. INSURED BENEFITS

	AAFES	NRSO	MCES
1. Retirement			
a. Eligibility	All regular full time U.S. citizen or U.S. resident employees (Mandatory Participation.)	Regular full-time & part-time employees in the U.S., Canadians employed in Canada & Panamanians employed in C.Z., if employed in excess of 20 hrs. a week or 5 mos. a yr.; have 1 yr. of service; younger than 58 yrs. Voluntary participation.	All permanent U.S. Citizen employees regularly working at least 20 hrs. per week. (Voluntary participation.)
b. Annuity	1-1/2% of first five years + 1-3/4% of next five years + 2% of remaining service years, x high 3 years average salary. Not to exceed 80% of high 3 average salary. Less Social Security offset of 2-1/2% of annual primary Social Security benefit x years of credited service, to a maximum of 40 years.	Based on 5 highest consecutive yrs. average earnings in last 10: 1% of \$3,600 for 10 yrs. 1½% of excess 1½% of \$3,600 to 30 yrs. 2% of excess 2% of all earnings - 31st to 40th yr.	2/3% of average annual earnings up to \$4,800 plus 1-2/3% in excess of \$4,800 x number of years of credited employment.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
c. Contribution	6-1/2% of basic salary.	2% on first $3,600 of annual earnings 3% on earnings in excess of $3,600.	2% of actual earnings each yr. up to $4,800 plus 4% in excess of $4,800. Employee contributions do not commence until 1 January following completion of 3 yrs. employment.
d. Prior Military Service	Maximum 5 yrs., applied at retirement for final annuity computation.	Not counted.	No credit given.
e. Cost of Living Adjustment	If cost of living up 3% for 3 months, retired pay increased to reflect CLA increase.	None.	Not presently in plan; however, currently planning to include this benefit.
f. Normal Retirement	Age 62.	62 yrs.	Age 65.
g. Voluntary Retirement (Employee Option)	Age 55 / 30 yrs. service. Age 60 / 20 yrs. service.	None.	Age 55 / 10 yrs. service.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
h. Optional Early Retirement	Age 52 / 5 yrs. service unless otherwise entitled under voluntary retirement.	52 with 5 yrs. of service.	Age 55 / 10 yrs. service.
i. Involuntary Early Retirement	Age 50 / 20 yrs. service or after completion of 25 yrs. service for reason other than cause.	None.	Age 55 / 10 years.
j. Mandatory Retirement	Age 62 to 70 at management discretion.	Age 62 to 70 at management discretion.	Age 65. May be permitted to continue at discretion of management.
k. Disability Retirement	Eligible after 5 yrs. service.	None.	None.
l. Widow's Pension (Before commencement of annuities	Five year service/55% of employee's accrued annuity.	None.	None.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
m. Widow's Pension (after commencement of annuities)	55% of employee's full annuity with employee's full annuity being reduced by approx. 10%.	None if no option elected, except 10 yrs. certain if participating in plan prior to March 1970.	Employee may elect reduced annuity to be paid as long as he lives and continued after his death during remaining lifetime of a person named by him.
n. Social Security	Yes. Partially offset retirement benefits after age 62.	Yes. Does not offset retirement benefits.	Same as NRSO.
2. Group Insurance a. Eligibility	All regular full time employees (Voluntary participation)	Regular full-time employees in U.S., Canadians employed in Canada and Panamanians employed in C.Z. (Eligibility for Disability Benefits-must also have 1 yr. of service and be participating in Group Insurance Plan.	Employees working at least 20 hours per week. Voluntary.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
b. Life Insurance (Active)	Minimum $4,000 / Maximum $40,000	Amount determined by basic annual salary rounded off to next $1,000. (For management personnel, an additional amount equal to 2 times the basic amount.	Minimum $2,000 Maximum $20,000.
c. Accidental Death	$4,000 to $30,000 USP; EMP, same + double indemnity of Life Insurance amount.	Amount determined by basic annual salary rounded off to next $1,000. (For management personnel, an additional amount equal to 2 times the basic amount.	Same + Double Indemnity of Life Insurance amount.
d. Basic Medical (Active)	Hospital confinement $40/day for up to 120 days. Maternity confinement up to $300 pe per pregnancy. Surgical up to $480. Miscellaneous hospital expenses up to $400.	First $1,500 of in-hospital expenses paid 100%, then 80%. Maternity-Normal, 80% of expenses up to maximum of $500.	Hospital-100% of first $1,000 in any calendar yr. then 80%. Semi-private +4. ,aternity-Normal $300; Caesarean $600; Miscarriage $150. Other medical expenses; after deductible incurred in a period of 90 consecutive days, then 80%. Deductible: $50-Less than $5000 $75-$5,000 but less than $7,500 $100-$7,500 or more

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
e. Major Medical (Active)	$100 deductible and pays 80% of the excess up to $25,000	$25,000 Major Medical which pays 80% of expenses; deductible $50 per member to $150 per yr. per family (combined basic and major medical).	Same as 2d above. Maximum benefit $25,000.
f. Medical Benefits (Retired)	Same as active after 15 yrs. participation. At 65, coverage under medicare reduced by like amount benefits paid under the AAFES plan.	None, other than convertible at employee's cost.	None.
g. Life Insurance (Retired)	After 15 yrs. service full coverage with decrease from age 66 to age 68. Minimum 25% of insurance at and after age 68. Full coverage available at employee expense.	After 5 yrs. of service free coverage, Benefits decrease 2% a month until it reaches 25% of basic amount just prior to retirement.	None.
h. Supplementary Widow's Benefits	For EMP supplementary life insurance benefits paid to widow if named beneficiary per Table 1, Bulletin 103, (up to 25% of group life insurance annually, not to exceed 18 yrs.	None.	None.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
3. Basic Disability Benefit	Commences on 17th day of sickness and payable for maximum of 26 weeks; weekly payment of $24 minimum to $200 maximum	Starts 3rd consecutive month Mgmt personnel - 70% monthly income up to $900*. Others - 50% up to $500* 2 yrs. if necessary *Payments offset by amount received from Social Security, Disability.	None.
4. Long-Term Disability	Extended weekly benefit payable for period of weeks beyond basic period equal to number of weeks the employee has completed while in active pay and duty status as fully insured participant prior to disability commencement. Cease at age 62; minimum 24 to $200, maximum weekly.	Payments same as above except reduced by 70% of amount earned in rehabilitation program for those able to participate. Payments continue, if necessary, to normal retirement date.	After "Totally disabled" for 3 months, benefits start and cease when recovered, dies, or reaches age 65. Benefit equal to 60% of pay to a maximum of $990 per month.
5. Workmens Compensation			
a. Temporary Total Disability	2/3 of average weekly wage; maximum weekly compensation of $70. Limitation $24,000.	Same.	Same.

TABLE 1 -- Continued

1. INSURED BENEFITS

	AAFES	NRSO	MCES
b. Permanent Total	2/3 of average weekly wage; maximum weekly compensation of $70 for entire period of disability.	Same.	Same.
c. Temporary Partial	2/3 of loss in earning power. Maximum weekly $70. Maximum period 5 yrs.	Same.	Same.
d. Permanent Partial	2/3 of average weekly wage; maximum weekly $70 payable under a specific schedule on basis of loss of use of certain members of the body.	Same.	Same.
II. OTHER BENEFITS			
Vacation			
Eligibility	Regular full-time U.S. Citizen / National Employees	Regular full-time and part-time U.S. Citizen Nationals	Same as NRSO.

TABLE 1 -- Continued

II. OTHER BENEFITS

	AFFES	NRSO	MCES
Days P.A.	13 to 26 days; less than 3 yrs. = 4 hours per bi-weekly pay period; 3-15 yrs. = 6 hours per bi-weekly pay period; 15 plus = 8 hours per bi-weekly pay period.	Cat. A & B (non-management)* From 12/26 thru 9th yr. = 2 weeks; 10th thru 24th yr. = 3 weeks; 25 and over = 4 weeks. Cat. C (Commission)* From 12/26 thru 2nd yr. = 1 week; 3rd yr. and over = 2 weeks. Cat. E (Management)* From 12/26 thru 4th yr. = 2 weeks; 5th yr. thru 14th yr. = 3 weeks; 15th yr. and over = 4 weeks. *First eligible for vacation upon completion of probationary period according to schedule which varies from 2 to 7 days.	Same as AAFES.
Maximum per year	240 hours = HPP 240 hours = USP (Non Mobile) 360 hours = All Overseas (Transp. Agreement) 360 hours = USP (Mobile)	30 days	240 hours, all regardless of location.

TABLE 1 -- Continued

II. OTHER BENEFITS

	AAFES	NRSO	MCES
Sick Leave			
Eligibility	Regular full-time employees	Regular full-time and part-time U.S. Citizen Nationals.	Same as NRSO.
Days P.A.	13 days.	Cat. A, B & E* From 12/26 thru 2nd yr = 2 weeks full and 2 weeks ½ pay; 3rd thru 4th yr. = 3 weeks full and 3 weeks ½ pay, 5th yr. and over = 4 weeks full and 4 weeks ½ pay. Cat. C* From 12/26 thru 2nd yr. = 1 week full and 1 week ½ pay; 3rd yr. and over = 2 weeks full and 2 weeks ½ pay. 2 - day waiting period 1st 2 yrs for Cat. A & B. 2 - day waiting period at all times for Cat. C. * First eligibel for sick leave upon completion of probationary period according to schedule which varies from 2 days full & 2 days ½ pay to 7 days full & 7 days ½ pay.	13 days.

TABLE 1 -- Continued

II. OTHER BENEFITS

	AAFES	NRSO	MCES
Maximum	No Limit.	60 days full pay.	90 days.
Severance Pay Eligibility	USP employees RIF and not eligible for immediate annuity and for whom no other position is available.	Regular full-time and part-time with at least 6 months service in case of RIF.	None.
Amount	One week for each year up to 10 yrs. two weeks for each yr. over 10 yrs. maximum = one yr. base pay at time of separation	6 months to 1 year = 1 week 1 year or more = 2 weeks.	N/A.
III. COMPENSATION			
A. Universal Salary Plan			
1. Grade Structure	USP 5 through 15 "A" grades 11, 12 and 14 Super grades equivalent to GS 16-18 in one 10 step range.	17 grades	HEADQUARTERS USMC ONLY Grades 1 through 14 (GS structure - 10 step range.)

TABLE 1 -- Continued

III. COMPENSATION

	AAFES	NRSO	MCES
2. Salary Range	Equivalent salary to General Schedule ($6,176 - $33,495)	$5,000 to $33,495 Average minimum to maximum spread 43.25% in grade.	Equivalent to GS 1-14 ($3,889.60 to $24,086.40).
3. Step Advances	52 weeks each in steps 1,2, 3 104 weeks each in steps 4,5,6 156 weeks each in steps 7,8,9.	Annual automatic advance to midpoint, then biennial automatic advance to maximum. Movement thru total range over 11 yr. period.	1040 hours in steps 1 and 2 2080 hours in steps 3 thru 6 4160 hours in steps 7 and 8 6240 hours in steps 9 and 10
B. Hourly Pay Plan.	Determined on basis of locality wage surveys	Same.	FIELD ACTIVITIES Determined on basis of locality wage surveys.
1. Hourly Range	4 steps schedule for all job categories, except office which has 6 steps.	Weighted average midpoint. Minimum to maximum spread 10 to 30%.	Determined at each Command
2. Grade Structure	Numbers of grades vary between 7 and 15 depending on location and job categories.	Similar-paying jobs grouped into a single grade. No. of grades vary.	Determined at each Command and depends on location and job category.

TABLE 1 -- Continued

III. COMPENSATION

	AAFES	NRSO	MCES
3. Step Advance	4 step wage schedule: - 26 weeks in step 1 - 52 weeks in step 2 - 70 weeks in step 3	5 steps; merit increase beyond midpoint.	Determined at each Command.
C. Overtime.			
1. Eligibility	All HPP employees and certain USP employees classified as exempt under the Fair Labor Standards Act	Nonmanagement Personnel (except commission employees if their regular rates of pay are more than 1½ times the applicable statutory wage.	All employees not classified as exempt under the Fair Labor Standards Act.
2. Premium	1½ times the hourly rate not to exceed rate of GS 10-1.	1½ times basic hourly rate.	1½ times the hourly rate.
3. Criteria	Hours worked must be in excess of a 40 hours administrative work week.	Same.	Same as AAFES.

TABLE 1 -- Continued

IV. EMPLOYMENT POLICIES AND PRACTICES

	AAFES	NRSO	MCES
1. Probationary Period	90 days - HPP 1 year - USP	6 months full time. 12 months part time.	6 months all.
2. Mobility	All employees appointed, converted or promoted to the Universal Salary Plan.	No Requirement.	No Requirement.
3. Employment Categories	-Regular Full time = 40 hours. -Regular Part time = 16-35 hours. -Temporary Full time = hired for 180 days x 40 hours. -Temporary Part time = 16-35 hours. -On-Call 16 hours or less per week. -Casual 16 hours or less per week, normally unscheduled, manual and unskilled type.	-Regular Full time = 32-40 hours. -Regular Part time = less than 32 hours. -Temporary Full time = same as regular Part time. -Temporary Part time = same as regular Part time. -None. -None.	-Regular Full time = 40 hours. -Regular Part time = less than 40 hours. -Temporary Full time = same as above. -Temporary Part time = same as above. -None. -None.
4. R. I. F.	Formalized program on roster basis EMP preference in USP, HPP rosters based on retention scores; length of service, and veterans service.	No policy other than eligible employee will receive notice and severance pay.	No specific program.

TABLE 1 -- Continued

IV. EMPLOYMENT POLICIES AND PRACTICES

	AAFES	NRSO	MCES
5. Testing Practices	All new hires tested. All current employees (USP). All HPP's to be converted to USP. All USP's for conversion to EMP.	Informal Programs.	Informal Programs.
V. CAREER MANAGEMENT PROGRAM			
Placement Policy	EMP Program: Membership by nomination and selection open to USP only. SMP Program: EMP members only: Grades USP 13 and above with appointments thereto by a Central Promotion Board meeting annually.	One Management One Management Program of 17 grades. Actual selection made by NEO's subject to approval of NRSO.	Informal Programs.
Membership Conditions	Mobility and willingness to accept hardship assignments. Promotion predicated upon demonstrated performance, potential, and management staffing requirements.	Mobility encouraged but not required. Same	Informal Programs.

TABLE 1 -- Continued

V. CAREER MANAGEMENT PROGRAM

	AAFES	NRSO	MCES
Membership Conditions (Continued)	Grades 13 and above become "personal grades" and are retained even though for management convenience the individual is assigned to a position allocated higher or lower than his person grade.	Grades 12 and above generally limited to headquarters managerial positions.	Informal Programs.
VI. TRAVEL TRANSPORTATION			
Household Goods	All travel and transportation benefits are in accordance with BOB Circular A-56, as changed.	11,000 lbs. for employees having immediate family with them; 5,000 lbs. for employees having no immediate family with them.	All travel reimbursed in accordance with JTR's.
Dependent Per Diem	Same as above.	None.	Same as above.
Allowance Temp. Quarters	Same as above.	None.	Same as above.

TABLE 1 -- Continued

VI. TRAVEL TRANSPORTATION

	AAFES	NRSO	MCES
Advance Trip Authorization (Prior to Relocation in CONUS)	Same as above.	None.	Same as above.
Relocation Allowance	Same as above.	20 days per diem paid to transfers; 10 days per diem paid to new employees (Management only).	Same as above.
Residence Transaction	Same as above.	None.	Same as above.
Separate Travel for Retirement, Disability and RIF	Same as above.	None.	Same as above.

TABLE 1 -- Continued

VI. TRAVEL TRANSPORTATION

	AAFES	NRSO	MCES
Shipment of Privately-Owned Vehicle	Same as above.	One U. S. privately-owned vehicle (or foreign made motor vehicle authorized by NavSup Manual Transportation of Property). * Reimbursement for travel generally parallels JTRs.	Same as above.

Source: Navy Resale System Office and Navy Exchange Manual, Marine Corps Exchange Manual, Exchange Service Personnel Policies, Army Regulation No. 60-21, Air Force Regulation No. 147-15.

A standardized personnel policy for all Exchange employees is realistic when Table I is viewed for critical obstacles. Differences between mandatory and voluntary participation in retirement programs and normal retirement ages varying from age 62 to 65 should not be insurmountable obstacles. Basic life and medical insurance vary in deductables, minimum, and maximum dollar amounts, but not to any significant extreme that should cause hardship if accepted by all Services. Vacation benefits, sick leave, and severence pay have very minor differences.

With respect to salaries and wages, Table I again indicates basic similarities. Each service independently makes periodic wage surveys in the local communities to determine wage rates paid for similar work done in those localities.[1] A consolidated personnel policy would eliminate each service conducting expensive independent surveys in the same locality and further eliminate varying wage rates that now exist in Exchanges in the same area for the same type of work.

A standardized personnel program that is uniform throughout the Military Services should also assist labor negotiations. Executive Order 114911 is the governing document for labor management relations within the Government. National specialized representatives

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[1] Department of Defense Military Exchanges, Task 68-5, p. 156.

for Exchanges could assist local labor contract negotiatiors when presently the lack of uniformity results in independent action and is to the benefit of labor as the differences listed in Table I are exposed weaknesses and attractive goals for labor organizers.

With a work force in excess of 100,000 persons, there is identifiable logic in the existence of a system which would permit the transfer of accured benefits from one location to another.[1] This is particularly germane since a large portions of the work force is drawn from dependents of military personnel who must transfer periodically.

This is a tool that could be effectively developed for the benefit of all Services. By standardizing procedures and permitting inter-Exchange transfers, career incentives would be offered trained employees and advancement opportunities would be expanded for aggresive, experienced and mobile employees. Winning a promotion means that the employee enjoys an economic reward, as well as a sense of accomplishment and completion, a sense of progress, and added social prestige.[2] Pirating of employees could result in areas with multiple Exchange systems but this type of agressive management would in the long run

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[1] Ibid., p. 148.

[2] Leonard R. Sayles and George Strauss, Human Behavior in Organizations (Englewood Cliffs, New Jersey: Prentice-Hall, Inc.1966), p. 148.

benefit both the employee and the service Exchange customer. The loss of trained personnel due to lack of promotional opportunities or limited geographical selections should also diminish. The administrative costs of training new employees should also decline in the long run with an increased number of career motivated personnel remaining with the Exchange Systems when switching geographical communities.

The Armed Services Exchange regulations state:

> 4-602 military personnel. Officer personnel may be assigned for executive control and essential command supervision of Exchange operations. The following criteria shall be used in determining the number of billets authorized:
>
> a. One Exchange Officer per installation Exchange with annual sales up to $3,500,000.
>
> b. One Deputy Exchange Officer per installation for each $5 million annual sales or fraction thereof in excess of $3.5 million.
>
> c. One Assistant Exchange Officer will be allowed for grocery sections at activities where no commissary stores are available.
>
> d. An exception to this staffing criteria may be made for officer personnel at overseas bases where qualified civilian supervisory personnel are not available or permitted. At such bases, with the approval of the Secretary concerned, one additional officer is allowed per installation Exchange.
>
> No enlisted personnel may be assigned to Exchange operations except:
>
> a. In remote locations where qualified civilians are not available or not permitted.

b. In grocery sections at activities where no commissary stores are avialable.

c. In Ships Store Afloat.

d. Upon approval by the Secretary of the respective Military Departments, where enlisted personnel are required for purposes of rotation and training.

The Navy closely follows the military personnel policies stated above by assigning military officers to command all main Exchanges worldwide. Branch Exchanges which report to a main Exchange are usually managed by civilian personnel. The Marine Corps follows the Navy system generally but goes even one step further by often assigning enlisted personnel to CONUS Exchange duty. The Army Air Force approach is best viewed in a letter written by Major Richard A. Summers, USA, which states:

"With few exceptions, installation Exchanges are managed by AAFES Civilian personnel in both CONUS and overseas. In CONUS, only 15 officers are assigned by command as installation Exchange officers. All other Exchanges are managed by civilian executives entitled General Managers. Joint Army and Air Force regulations authorize the assignment of installation Exchange officers by installation commanders, based upon sales volume of the Exchange. However, during the last several years, there has been a tendancy not to assign military officers to installation Exchanges as these spaces are vacated. Executive control of AAFES is exercised by approximately 200 officers worldwide, except for Vietnam where military management of Exchanges often extends down to the selling outlet."[1]

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[1]Richard A. Summers, Major, USA, Director, Information for Headquarters Army and Air Force Exchange Service, personal letter to author. February 16, 1970.

Some of the advantages of having civilian general managers are:

1. Extensive education and experience in retailing and the application of these latest business techniques to the Exchange system.

2. The possiblity of having continuity of management longer than the two or three years military tour.

3. Availability and incentive for advancement by civilian employees to the top management position.[1]

Some of the merits associated with assigning military personnel to key Exchange billets follow:[2]

1. The necessity to have military personnel trained to operate field Exchanges during war time conditions.

2. Military personnel relate Exchange situations to military commanders and customers using common language and experience.

3. Military commanders feel they have more control of Exchange operations when they write the fitness report on the Exchange Officer.

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[1] Department of Defense Military Exchanges, Task 68-5, Prepared by the Logistics Management Institute, Washington, D. C., July, 1968, p. 153-4.

[2] Ibid., p. 153.

4. Military customers often feel the Exchange is more responsive to their interests and have a closer association with it.

Captain J. J. Scheela, SC, USN, past Executive Officer of the Navy Ships Store Office, pursued this point by letter stating:

> "... because the Navy does have its Exchange Officers reporting to the base Commander, it provides the incentive we need in order to operate in the most efficient way possible. My point here is that maybe that's why our own profit in terms of sales is so much higher[1] -- we do have somebody pounding on the Exchange officers to run these stores as efficiently as possibly, besides the "great white father" in New York. The whole purpose of our resale program is to offer our customers a service."[2]

The official Navy position on this subject is provided in a response to the Logistic Management Institute Study:

> "The CONUS military commander has the same responsibility for morale, and morale activities as overseas military commanders. In the Navy Resale System all Exchanges are under the military command of the local Station Command and it is the Navy position that this command relationship should be maintained. If a Defense Exchange Service is considered desireable, the "trade-off" should be in favor of the most economically efficient and sound financially managed organization. The study (LMI) acknowledges that the separate Exchange services are responsible to their mission and therefore a demonstrable economic "trade-off" should be established to justify the creation of a proposed Defense Exchange Service."[3]

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[1]See Table 3.

[2]Jerry J. Scheela, Captain, Supply Corps, USN, past Executive Officer, Navy Ships Store Office. Letter to Captain A. L. Borchers, SC, USN, Office of Assistant Secretary of Defense for Manpower and Reserve Affairs, November 6, 1968.

[3]R. S. Driver, Assistant Secretary of the Navy Manpower Reserve Affairs, Memorandum, November 29, 1968.

A survey on employee turnover, Table 2, indicated that the Navy Exchanges had the lowest annual turnover of mangement personnel of the Exchange system.

TABLE 2

EMPLOYEE TURNOVER

Exchange Service	% TURNOVER / YEAR	
	Military	Management (Salaried)
AAFES	RVN 100% PACEX 34% CONUS & EES 24%	8% Worldwide
Navy Exchanges	35%	5.1%
Marine Exchanges	50%	8%

Source: Logistics Management Institute.

The success or failure of the management control process depends on the personal characteristics of the manager. His judge-

ment, his knowledge, and his ability to influence others.[1] It is noted that the use of military officers has not forced a higher turnover of career management. It is speculated that the military officer is a buffer between the Command and Exchange, and the civilian manager is not subject to that pressure. Also, the Exchange Officer receives the majority of the customer complaints and abuses, freeing the civilian manager to pursue his job with limited harassment. Under the concept of staff-line relationships, a highly effective interaction-influence system is constructed by both line and staff contributing.[2]

PROCUREMENT & PRICING POLICIES

The Armed Services Exchange Regulations are the guidelines authorized by the Secretary of Defense for the operation of the Military Exchanges. Each branch of service has expanded those regulations to clarify and tailor their Exchange procurement and pricing policies to maximize their objectives. Refering to these objectives, Rear Admiral Douglas H. Lyness stated:

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[1]Robert N. Anthony, Characteristics of Management Control Systems, in Management Control Systems Cases and Readings, Ed. by Robert N. Anthony, John Dearden and Richard F. Vancil, (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 11.

[2]Rensis Likert, New Patterns of Management, (New York: McGraw Hill Book Company, Inc., 1961).

. We want to make a contribution to welfare programs of the Navy.

. We want to be able to give the servicemen the kind of merchandise that he would like, that he is entitled to have, at a reasonable price with good quality.

. We also want the servicemen to have the kind of facility in which he will enjoy shopping.[1]

The Army and Air Force have issued joint procurement (AR 60-10/AFR 147-7 and AR 60-20/AFR 147-14) and pricing regulations. The Navy and Marine Corps have incorporated these requirements in their Exchange Manuals.

The Logistic Management Institute[2] made a survey in the Washington - Norfolk area of 31 items which were representative of the highest dollar and highest unit sales items carried in the merchandise department of the major Exchanges. The price from the supplier to the Exchange and the selling price to the customer were recorded. The following conclusions resulted:

a. If only one of every 31 items surveyed were purchased by each Exchange service, the total procurement price to the Exchanges did not vary over 1%.

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[1]Bill Sullivan, "Lyness Sees NSSO as Big Business with Bigger Mission: Service," Exchange & Commissary News, Vol. VIII, No. 4, April 15, 1969.

[2]Department of Defense Military Exchanges, Task 68-5, p. 45.

b. Most of the items listed were regularity purchased on price agreement bulletins and that the three different procurement systems were alert to their buying opportunities.

c. It was difficult to obtain exact prices on a comparable basis due to the varying terms and discounts extended to each Exchange service. For example, the Navy may take an additional discount at its headquarters when it paid the vendor that was not returned to the retail store. Also, the Army Air Force Exchange System often gets distribution discounts for performing certain distribution functions for the supplier.

d. If a customer bought one of every item, first in an AAFEX store, then in a Navy Exchange, and again in a Marine Exchange, his relative total costs would not vary more than 3%.

The above variances were without advantage to any specific Service Exchange.

This small differential can be a source of friction for store personnel and customers causing an erosion of confidence and loss of intended Exchange objectives.

The price agreement bulletins are open-end price agreements with a supplier on those items which are repetitively stocked or in high demand. They are used by all services and standardization is necessary to insure fair treatment to all Exchanges and thus fair and equal prices to all consumers.

A step in this direction was taken when representatives of AAFES and NRSO met and signed a memorandum of understanding which provided that the benefits of AAFEX consolidated procurements will be available to all Military Exchanges.[1] It states that:

. Contractors will be permitted to offer indentical prices to both NRSO and AAFES without reservation or condition.

. NRSO and AAFEX agree:

- To establish common worldwide sell prices for items identified under consolidated procurement contracts;

- To use their good offices to encourage the Marine Corps Exchange Service to apply the sell prices established by AAFEX/NRSO on items identified under consolidated procurement contacts.

. AAFEX and NRSO agree to coordinate their efforts in development and establishment of common pricing policies and practices.

The memorandum of understanding also permits contractors to extend the same prices to the Marine Corps Exchange System. The cost savings benefits derived through the AAFEX Consolidated Procurement Program may therefore be passed on to authorized customers of the uniformed services Exchange systems.

Procurement improvement was again stressed by Rear Admiral Lyness in his remarks opening the Navy Exchange Service Center at

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[1]Consolidated procurement policy of Army, Air Force Exchange Service and Navy Resale Systems Office, Advisory Committee Meeting, Fall 1969. (Typewritten.)

San Diego, California.[1]

> "This operation will be one of the few in the United States which will utilize the computer to determine the inventory requirements for the NESC, print the purchase orders to procure those requirements and then print the accounting documents which will transfer merchandise to the individual Exchanges in the San Diego area."

Standardized procurement policies would assist the small Exchanges by permitting them to purchase at the same price as the large volume Exchanges. This would permit service personnel at isolated small bases to buy in their Exchanges at the same price they would pay at the large base. The fiscal 1969 Exchange sales totaled $2,809,700,000 for the AAFEX, NRSO and USMC.[2] Individual totals were $1,961,600,000, $705,700,000 and $142,400,000 respectively. This is a sizable fringe benefit to servicemen as Exchanges sell goods at 16 per cent above cost; supermarkets, 18 per cent; discount houses, 24 per cent; variety stores, 38 per cent and department stores, 48 per cent, according to the National Retail Merchants Association.[3]

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[1]Douglas H. Lyness, Rear Admiral, Supply Corps, USN, Commanding Officer, Navy Resale Systems Office, Speech at Opening of the Navy Exchange Service Center, San Diego, California, February 26, 1969.

[2]"Market-At-A-Glance," Exchange & Commissary News, Vol. IX, No. 1, January 15, 1970, p. 31.

[3]Sullivan, "Lyness Sees NSSO as Big Business with Bigger Mission: Service," p. 101.

Current procurement problems are however, plaguing the Exchange System due to its size. Buyers making procurement decisions are offered illegal inducements which can influence their awards of lucreative contracts. On February 26, 1970, a federal grand jury indicted eight persons who were associated with Exchange procurement:

> Fritz Claudius Mintz, a manufacturer's sales representative, agreed to pay kickbacks to military post Exchange purchasing men after they had bought merchandise sold by manufacturers who paid commissions to Mr. Mintz.
>
> Morton Penn, named as a coconspirator, also was described as having paid kickbacks. The kickbacks were said to amount to about 2 per cent of the sales price of the goods, which included toys, cameras, cosmetics, and ladies' clothing.

The commissions, according to the charges were concealed in in secret numbered accounts at Bank Leu, Zurich, and cash to pay the bribes was then taken out of these accounts. The number of the accounts were listed as: 60854 and 60904 under the code name of Gray, 13666 under code name Mime, and 60966.[1]

Consolidated procurement has also run into difficulty when a single source is specified. The extended General Electric strike proved the vulnerability of the AAFEX procedure of putting all procurement eggs in one basket. It has also proved to be a headache from quality, supply and political viewpoints.[2]

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[1] "Eight Indicted in Alleged Plot to Defraud U.S. through Use of Swiss Bank Accounts," The Wall Street Journal, February 26, 1970, p. 13.

[2] "Deadline Datelines," Exchange & Commissary News, Vol. IX, No. 1, January 15, 1970, p.1.

Consolidated purchases of common items, however, permits replenishment by computer and thus should reduce errors, procurement time, and personnel costs. Transportation costs, volume discounts, and standardized prices add to the appeal for centralized procurement. Buyers from individual Exchanges could continue to purchase directly items peculiar to their location requirements and purchase through the AAFES area support center[1] or the Navy Service Center, heavy turnover items. This procedure could yield both economy and service to the Exchange patron.

Financial Management

The Armed Services Exchange Regulations state the Exchange audit policy as follows:

> 4-201 External Audits. Each service shall require annual audits of its Exchange system by a certified public accounting firm or firms. These audits shall include the central offices (if maintained) and such regional organizations and individual Exchanges as may be necessary to obtain properly certified statements as to the financial condition of the Exchanges under the cognizance of each service.

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[1]Joint Army No. 60-20 and Air Force No. 147-14 Regulation, Exchange Service Operating Policies, Area Support Center, October 17, 1968, p. A-1.

4-202 Internal Audits and Inspections. Each service shall determine and require such internal audits and inspections as it may consider necessary or desirable.

The companies of Peat, Marwick, Mitchell and Company; S. D. Liedesdorf and Company and C. W. Amos and Company, fulfill the external audit requirements for the AAFES, NEX and MCES respectively.

The Exchanges' primary objective from the financial management point of view is to provide funds for welfare and recreational activities and provide timely services to the servicemen at the lowest practicable prices. Table 3 provides a breakdown by Service, of sales, profit and welfare and recreation profit contribution.

An obvious improvement for comparison purposes would be establishment of reporting periods covering the same dates. The fiscal years noted by Table 3 basically cover the same dates but are actually different fiscal years as recorded in individual Service Exchange records.

TABLE 3

MILITARY EXCHANGE OPERATIONS

$ in Millions

I t e m	Total	AAFES	Navy	Marine
Sales				
CONUS	6906.1	4565.0	1762.7	578.4
Overseas	5394.3	4294.8	1025.4	74.1
Total	12300.4	8859.8	2788.1	652.5
Net Profit	743.0	504.1	187.5	51.4
% of Sales		5.69%	6.73%	7.88%
Profit Contributed to Welfare and Recreation Fund	507.7	319.8	163.2	24.7

Total figures for fiscal years 1965 through 1969.

Fiscal Years are:

AAFES 25 January to 24 January
Navy 26 May to 25 May
Marine 28 January to 27 January

Sources: AAFES Fact Sheet No. 100-1, September 1969.
Cdr. John E. McEnearney, Naval Supply Systems Command,
Mr. Sam Leader, Marine Corps Exchange Headquarters,
Washington, D. C.

The AAFEX Board of Directors determines the amount it will distribute for welfare and recreation purposes based on earnings available and required capital.[1] In fiscal 1968 AAFEX paid out 75 million of its 108.84 million profits for this purpose and in fiscal 1969 they again paid out 75 million with profits of 123.3 million. During the same periods the NEX paid out 32.69 million on profits of 44.84 million and 37.4 million on profits of 45.8 respectively. The Marine Corps[2] and Navy[3] are similar, as they use a decentralized approach. Welfare and recreation funds are distributed to the local commands based entirely on the profits generated by their local Exchanges. Base commanders thus have an added incentive within the Navy and Marine Corps to insure their Exchanges are operated in the most efficient and effective manner. Army and Air Force base commanders are allocated welfare and recreation money for their command based on the number of military personnel assigned and not on the profitability of their local Exchanges.

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[1]Joint Army No. 60-10 and Air Force No. 147 Regulation, Exchange Service General Policies, Section III, Para. 21, March 25, 1969, p. 7.

[2]Marine Corps Exchange Manual, Part I, Distribution of Profit, 1400, pp. 1-33, 1-34.

[3]Navy Exchange Manual, 2514-2, p. 2-29.

Captain Milton A. Gabrielson, USN, stated in an interview that the AAFEX methods of determining the amount of profits to be distributed for welfare and recreation purposes may result in less efficient use of the money at headquarters level.[1] He compared the number of civilians employed in Dallas, Texas, with the corresponding numbers employed in the Navy and Marine Corps Exchange headquarters. These figures were 1400, 600 and 50 for the Army Air Force, Navy and Marine Corps respectively. He further emphasized that the AAFES staffing overhead expense at the area support center was in addition to their personnel bureaucracy in the Dallas, Texas, headquarters.

Inventory turns per year of all Exchange Services compare favorably with average department store statistics of 3.4 turns and discount store averages of 4.0 turns per year, according to the National Retail Merchants Association.[2]

Individual Exchange stock turn figures are compared in Table 4.

All the Exchanges use a similar system for inventory control commonly called open-to-buy. It is a computed inventory, based on

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[1]Milton A. Gabrielson, Captain, USN, Bureau of Naval Personnel, Project Director, Employment Practices of Department of Defense Non-Appropriated Fund Personnel Study Group, Personal Interview with Author, March 3, 1970

[2]Department of Defense Military Exchange, Task 68-5, p. 64.

TABLE 4

EXCHANGE INVENTORY MANAGEMENT STATISTICS

Fiscal Year 1968

EXCHANGE SERVICE	RETAIL SALES	RETAIL INVENTORIES*	RETAIL STOCK TURNS/YEAR
AAFEX (Total)	1,545.0M	393.9M	3.9
AAFEX (Less RVN)	1,229.9M	305.7M	4.0
Navy Exchanges	382.4M	62.1M	6.3
Marine Exchanges	88.9M	16.9M	5.3

* Valued at retail selling price.
Source: Logistic Management Institute.

sales forcasts and expected inventory at the end of the accounting period, that must be on hand at the beginning of the accounting period to meet sales demand during the period. Stock to sales ratio figures by type of merchandise are used to arrive at these figures.

The higher stock turn realized by the Navy Exchanges in Table 4 is a direct reflection upon effectiveness of this system. The shortage of funds to finance inventory stock requires lower stock-sales ratios. Stock turns will increase with lower stock-sales ratios provided the available funds are always placed in the fastest moving stock. Loss of sales will result when stock sales ratios are

restricted too far resulting in increased out-of-stock positions and a limited selection of merchandise. Additional adverse results are reflected when a timely mark-down policy is not in effect.

The shortage of inventory funds compounds during expansion periods caused by rapid military build-up periods. During World War II the Army Exchange Service was forced to borrow funds as their working capital was insufficient to meet the demand. A loan of 20 million dollars was secured from the Defense Supplies Corporation, a subsidiary of the Reconstruction Finance Corporation. The AAFES was required to obtain 60 million from commercial banks to meet the heavy requirements of the Vietnam conflict. The cost of commercial loan interest paid by the AAFES is indirectly paid by servicemen using the Exchanges. They are either penalized in welfare and recreation benefits or charged a higher mark-up on merchandise purchased to cover this cost. Both reduce the benefits intended for military personnel. This capital was for the sole purpose of providing them the basic necessities required in a war zone. The Navy and Marine Corps have met all required Exchange inventory expansion without outside financing.

In the application of electric data processing equipment the AAFES has pioneered the Exchange use through their Area Support Centers. They have in use the IBM 360 computers with the IBM 2311 multi-track wide tape deck. Through their use of automatic equipment,

they claim the following: lower sell prices due to consolidated procurement: can constantly monitor, respond to, and readily adjust to rapidly changing Exchange requirements; acquire cost savings through more favorable discount terms and allowances;[1] aide in answering complaints; determine a full day's selection from the warehouse; and handle 3,000 orders per hour as against 1,200 per day prior to computerization.[2]

The use of electronic data processing, at a fall-winter clothing clinic in Dallas, permitted the AAFES to buy 25 million dollars of clothing, involving 65,000 puchase orders and 160,000 lines items, and have these orders processed in 36 hours. Normally, this would have required over 10,000 man hours and delayed shipping of this seasonable merchandise to distant locations. The AAFES estimated cost savings at $50 thousand dollars plus the incalculable time factor.

The Navy has not converted as rapidly to electronic data processing at the retail level. Administratively, the accounting statements for all Exchanges CONUS, Exchange payroll, and Navy BuPers welfare and recreation fund account, are on a computer system at NRSO

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[1]"AAFEX Area Support Centers Have Come of Age," Army and Air Force Exchange Service Publication, Undated.

[2]"Advanced Computer System Speeds Up Mail Order Service; Volume Triples," Exchange & Commissary News, Vol. VIII, No. 10, October 15, 1969, p. 85.

headquarters in Brooklyn, New York. The Navy Exchange Service Center concept, similar to the AAFES Area Support Center System, was officially inaugurated February 26, 1969, in San Diego, California. Rear Admiral D. H. Lyness, SC, USN, remarked at its opening:[1]

> "Individual stores could not possibly afford the computer installation which exists in this facility. This operation will be one of the few in the United States which will utilize the computer to determine the inventory requirements for the Navy Exchange Service Center, print the purchase orders to procure these requirements and then print the accounting documents which will transfer merchandise to the individual Exchanges in the San Diego area.
>
> As a result, Exchange managers will be relieved of many routine tasks required to order and replenish their stores with merchandise. They can then devote more time to the increasing demands being placed on management for motivation and guidance of personnel, planning for future needs, review operational problems and opportunities, and improve service to the customer.
>
> Thus, in the sense that a number of functions will be centrally performed by the Service Center rather than by the individual Exchanges, our concept does not differ from that of the Army-Air Force Exchange System.
>
> But we do intend to have individual stores participate in the important decisions which affect them. Also, we recognize and accept our responsibility to insure that the Service Center provides a more efficient and economical operation.
>
> Finally, we believe there will always be an area for initiative and action by the individual store manager in serving his customers and we do not intend to deprive the Navy Resale System of the advantage."

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[1]Lyness, Speech at San Diego, California, February 26, 1969.

The Marine Corps Exchange System has proceeded slowly with electronic data processing due to its decentralized structure. Camp Pendleton successfully implemented local operations by reducing inventory 14.4% and increasing sales 19.8%. They claim better in-stock positions, rapid order processing, more responsive warehouse operation, and better review of departmental operation by the store manager, as effective results. Other Marine Corps Exchange electronic data processing installations are planned for Camp Lejeune and Washington, D. C.[1]

Clubs

Military clubs, both enlisted and officers, are established for the purpose of promoting and maintaining the well-being, morale and contentment of military personnel by providing dining, social, and recreational facilities. They may be established by the Commandant of the Marine Corps, Navy Resale Systems Office and by local commanding

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[1] Department of Defense Military Exchange, Task 68-5, p. 64.

officers under applicable service authority and departmental regulations and manuals.[1]

All enlisted men's clubs in the Navy are operated under the Navy Resale Systems Office. First and Second Class Petty Officer Clubs, Chief Clubs, and Officers Clubs are normally operated by the Bureau of Naval Personnel, but may at local commanding officers' request be operated by the Navy Resale Systems Office also.

The Army, Air Force, and Marine Corps Clubs are locally controlled with the basic responsibilities for management assigned to the commanding officer of the post or base.

Major Richard A. Summers, USA, Director, Information AAFES summarized their club policies as follows:

> "While AAFES and military clubs are classified as non-appropriated fund activities, AAFES has no official association with military clubs: Clubs and messes receive support from AAFES by virtue of their status as authorized patrons. In addition, AAFES performs certain procurement services for clubs and messes upon request and in accordance with joint Army and Air Force regulations."[2]

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[1]AR 230-60, Non-Appropriated Funds and Related Activities Open Messes and Other Military Sundry Associations and Funds, August 28, 1967.
AFM 176-3, Non-Appropriated Funds, Operational Manual for Open Messes and Sundry Associations, June 17, 1965.
MCOP1746.13B, Manual for Clubs and Messes, 27 July, 1967,
NAVPERS 15951, Manual for Messes Association, 1962,
Navy Exchange Manual.

[2]Summers, Letter, February 16, 1970.

In the Navy the Enlisted Men's Club Manager reports to the Exchange Officer. They are operated under the Navy Exchange Manual and have a standard system of operation, reporting and control. Annual inspections of the Exchanges includes the clubs. The Navy Resale Systems Office provides management assistance to club managers and provides accounting service, design and decorating services, bar and food equipment, and price guidance for supplies and inventory items.

The controls, audits and Exchange control of the Navy clubs may be a factor in the absense of club scandals[1] associated with enlisted men's clubs. Standard club policies applied to all Services should improve purchasing discounts, bring more experts into the system for design, entertainment, and procurement of specialized equipment, and add specialists in food service and bar and cost controls. Career motivated personnel could seek advancement within the Military Exchange System.

Captain J. J. Sheela, SC, USN, commented on a single Military Exchange System and its club application as follows:[2]

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[1]"What's News - World Wide," The Wall Street Journal, March 10, 1970, p. 1.
"Senate and Air Force Open New Club Inquiries," Club News, Vol. III, No. 1, January 15, 1970, pp. 1,7.

[2]Scheela, Letter, November 6, 1968.

> "It seems to me that there are numerous areas where the Services can improve their resale and special service operations without resorting to a single OSD resale managed activity. I go back of course to the Navy, where we could establish centralized procurement and warehousing on common items among Exchanges, EM clubs, officers clubs, chiefs clubs, etc. One office could handle this in our present system and we could account for the entire operation in much the same fashion that we handle the BUPERS accounting now. This would mean better service and better product to our patrons across the board in each of the services, without trying to assemble one merchandising giant who might be almost unmanageable in a military environment. It drives me to distraction here at NSC Pearl to have approximately 25% of my officers involved in advisory duties for the officers' club, audit boards for the officers club, special services and inventory boards, ad infinitum. If we were to do something like this, the amount of manpower we would free with these people would be enough to justify such a change, without considering any other advantages."

Any centralized control of the Exchanges must consider the role the Navy Exchange plays in club operations. Also any program designed to coordinate non-appropriated fund personnel policies and procedures must again view the successful club operations administered by the Navy Resale Systems Office.

Figures on sales, profit and entertainment, are meaningless for comparison purposes due to the extensive use of military personnel by all services. Also without standardized price mark-ups and no related controls on entertainment wide net profit fluctuations occur.

The economies of intra-service centralization similar to the Navy operations should benefit the customer in services and prices. The club managers should benefit with expert assistance for control

and procurement policies. The employees should benefit with Navy Exchange privileges, career patterns, and wage surveys. The profit picture should increase with centrally negotiated prices and the procurement of major equipment through a central office. Improved employee morale and centrally negotiated special entertainment should be plus factors. The local command would benefit by relieving it of the many collateral duties associated with club operations, such as inventory board and audit board members. The Exchange Officer who has been trained in these operations would assume these responsibilities.

CHAPTER IV

SUMMARY AND CONCLUSION

The Military Exchanges are serving approximately five per cent of the United States population and in fiscal 1969 contributed over 117 million dollars to military welfare and recreation programs. Each branch of the Military Services operate their Exchanges profitably and their rapid sales growth testify to the acceptability of their services. In accomplishing their mission then they are successfully fulfilling their objectives.

Effects of Consolidation of the Military Exchanges on Service Personnel

Cooperation between the Army Air Force Exchange Service and the Navy Resale Systems Office has resulted in an agreement on consolidated procurement purchases. Common worldwide sell prices are established for these items. Agreement has been reached between the AAFES and the NRSO to coordinate efforts in the further development and establishment of common pricing policies and practices. These agreements permit contractors to extend the same prices to the Marine Corp Exchange System. The cost savings benefits derived through the consolidated procurement program may therefore be passed on to all authorized customers of

the Military Exchange Systems. Inter-Exchange comparative shopping will not be necessary, which will reduce customer shopping time. Standardized prices will eliminate customer frustration caused by each service having different Exchange mark-up per centages. This caused brand name switching within the same commody group. Also, salesclerks would have additional time for customer service that is presently occupied defending the Exchanges' price structure or policies.

Standardized personnel policies could benefit the military patron by providing him improved service through career motived sales and management personnel. Inter-Exchange transfers of personnel, due to promotion or change of duty station without loss of retirement benefits, could retain additional experienced personnel, reduce training costs, increase competition for advancement and thus improve services offered the Exchange patron. Captain J. D. Graziadei, SC, USN,[1] past Director of Industrial Relations at the Navy Resale Systems Office, stated a consolidation of the Exchange talent in a given area would increase salaries, which would then attract even better qualified personnel, create additional career incentives, improve efficiency, and most important, improve the lot of the servicemen using the facilities.

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[1]John D. Graziadei, Captain, Supply Corps, USN. Public Affairs Officer, Naval Supply Systems Command and past Industrial Relations Officer, Navy Ships Store Office. Personal interview with author. February 25, 1970.

Political Involvement

Consolidating the Military Exchanges into one powerful retail organization would increase the magnitude of all operational decisions and focus Exchange criticism on a single management team. At present, a disgruntled civilian supplier may lose the business of one Military Service and improve his methods to retain his business with another Military Exchange System. Congressional intervention into the Exchanges' operations may be likely if a single supplier of a commodity is chosen for all Military Exchanges. The losers would not just lose one Exchange system but would be eliminated entirely from the entire Military Exchange System for their product. Not only would the total number of losers increase, but additional aggrevation would result from the loss of such a sizable dollar contract. Since the Exchanges are government entities, additional Congressional influence could be expected from business firms negotiating Exchange contracts. Claims of irregularities could increase and temptations made to decision makers could be made extremely juicy due to the volume.

Captain J. J. Scheela, SC, USN, stated:

> "When (Congressman) Mr. Bennett and other members of the House Appropriations Committee were through here last year, they told me that they were rather impressed with the Navy's

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[1]Scheela, Letter, November 6, 1968.

> way of buying vs. the central procurement idea of the Army and Air Force. Their conclusion was that the Navy System was, less subject to conclusion and pay-backs, and I don't think this is a matter to be taken lightly in the merchandise industry."

Brigadier General Leo E. Benade, USA, wrote:[1]

> "The Services are concerned that a merger of the three Exchange Systems would result in a single operation of such size as to produce unfavorable repercussions from potential critics of Military Exchanges in the business world."

Adverse publicity could center around: private enterprise being deprived of business, taxpayers' money being used to finance competing activities, and the Federal, State and local government taxing authorities being deprived of revenues.[2]

The brevity of the political implications involving black-market activities in Vietnam, club entertainment kickbacks, procurement irregularities and most recently, the scandal involving Swiss Bank Accounts,[3] has been associated with the sizable dollar sales figures of non-appropriated fund activities. Increasing further the size of contracts negotiated, would place additional power in the hands of decision makers, involve more lucrative volumes, and increase the size of kickbacks available to tempt the personal

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[1]Leo E. Benade, Brigadier General, USA, Deputy Assistant Secretary of Defense, Manpower and Reserve Affairs. Memorandum, December 13, 1968.

[2]Reuben E. Slesinger and Asher Isaacs, Business, Government and Public Policy. (Princeton, New Jersey: D. Van Nostrand Company, Inc., 1968), p. 411.

[3]"The Scandal of Secret Swiss Bank Accounts," Time, March 16, 1970, pp. 83-84.

integrity of contracting officials. Situations which foster dishonesty and often involve arbitrary decisions should increase congressional involvement in Exchange operations.

Exchange Centralization

The Assistant Secretary of the Navy (Manpower and Reserve Affairs) James D. Hittle wrote:[1]

> "In July 1967, the Services formed the Armed Forces Exchange Coordinating Committee for the express purpose of effecting a greater degree of commonality and standardization of policies and procedures. This Coordinating Committee is made up of top management personnel from the headquarters of each Exchange. It has met quarterly since its inception, and has proven highly successful in reaching general agreement on many matters requiring joint or coordinated action. For example, Subcommittees of Uniform Pricing Policies, Food Service, and Industrial Relations are but a few examples of the broad scope of problems addressed by the Committee."

The centralization of the personnel and pricing policies set forth in this paper appear within the jurisdictions of the above mentioned Committee.

The centralization of the clubs has developed along the intra-service route but preliminary investigation of the Office of the Secretary of Defense study group on non-appropriated fund activities[2] indicates plans for standardizing personnel policies

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[1]James D. Hittle, Assistant Secretary of the Navy for Manpower and Reserve Affairs. Memorandum, March 12, 1969.

[2]The Department of Defense is currently conducting a survey of all non-appropriated fund activities under the direction of Douglas R. Earich. Representatives from all Services are in his study group with the objective of standardizing procedures and improving management operations. Projected completion date is February 1971.

and procedures applicable to service clubs. This would be accomplished by Department of Defense Directives and Instructions.

The decision to retain Exchange decision making at the lowest level to accomplish its primary objective or morale of the serviceman, is best summarized in the following quote from John F. Burlingame:[1]

> "Decision-making responsibility is assigned at the lowest point in the organization where the needed skills and competence, on the one hand, and the needed information, on the other hand, can reasonably be brought together. A great improvement is believed to result in any firm when the creative talents of responsible individuals are encouraged to develop in a climate of individual responsibility, authority, and dignity -- a climate that is made possible by decentralization of decision making."

This author suscribes to the belief that an Exchange can best operate with technical advice from centralized management and functional advice from the local base commander. Creative initiative must be amplied to local conditions and the options are best analyzed by the local man.

Rear Admiral Lyness states:[2]

> "No central office can ever be as familiar with the local situation as the manager on the spot. There is the additional, important factor of local incentive and pride in a job well done."

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[1] John F. Burlingame, "Information Technology and Decentralization," in Management Systems. Ed. by Peter P. Schoderbek, (New York: John Wiley & Sons, Inc., 1968), p. 87.

[2] Lyness, Speech at San Diego, California, February 26, 1969.

Conclusion

The conclusion of this paper is that intra-service centralization of clubs would benefit service morale by providing local commands with expert advisors in bar controls, menu planning or food service ideas, modernization designs, major equipment procurement services and entertainment services. Inter-service centralization of personnel policies would provide increased career incentives for mobile employees. Inter-service transfer of employee retirement benefits would improve promotional opportunities and retain trained employees. Inter-service centralization of procurement policies should lower merchandise costs and standardize prices. The lower prices along with helpful career motivated sales personnel should make favorable morale contributions to their respective commands.

The consolidation of the Exchanges into a single resale organization suggests increased political intervention, loss of inter-service competition, increased small business objections to military competition, and increased procurement power which would be more sensitive to every decision.

The advantages center in reducing competition within a given area and consolidating warehouse stocks and personnel staffing. All of these advantages can be accomplished through the Armed Forces Exchange Coordinating Committee.

Recommendation

The Military Exchanges are currently successfully functioning in accordance with their mission. Improvements outlined in this paper are within the relm of the Armed Forces Coordinating Committee. The past inter-service Exchange competition has resulted in the healthy growth of profits and service. This author recommends the individual Service Exchanges retain their identity and acquire additional size benefits through the Armed Services Coordinating Committee.

C. Lloyd Johnson, President of C. Lloyd Johnson Company, wrote:

> "There is competition between the Exchanges and competition breeds improvement and improvement breeds perfection."[1]

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[1] C. Lloyd Johnson, "Communication Between Buyer and Seller," The Review, January/February 1970, p. 107.

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